

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

*SOUTH CAROLINA DEPARTMENT OF MOTOR VEHICLES
BLYTHEWOOD, SOUTH CAROLINA*

For The Year Ended June 30, 2006

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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June 11, 2007

The Honorable Mark Sanford, Governor
and
Ms. Marcia Adams, Executive Director
South Carolina Department of Motor Vehicles
Blythewood, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Department of Motor Vehicles for the fiscal year ended June 30, 2006, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

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BLYTHEWOOD, SOUTH CAROLINA
For the Year Ended June 30, 2006

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Certified Public Accountants
and Consultants
INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON
PROCEDURES

June 1, 2007

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of South Carolina Department of Motor Vehicles (*"the Agency"*), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2006, in the areas addressed. The Agency's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

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Deputy State Auditor
June 1, 2007

- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$200,000 - earmarked fund, \$32,000 - restricted fund and \$9,800 - federal fund) and ± 10 percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. Non-Payroll Disbursements and Expenditures

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the South Carolina Department of Motor Vehicles, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$64,000 - general fund, \$190,000 - earmarked fund, \$36,000 - restricted fund and \$11,000 - federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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June 1, 2007

3. Payroll Disbursements and Expenditures

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.
- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that employee's first and/or last paycheck was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$64,000 - general fund, \$140,000 - earmarked fund, \$14,000 - restricted fund and \$8,000 - federal fund) and ±10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ±5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Personnel and Payroll in the Accountants' Comments section of this report.

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Deputy State Auditor
June 1, 2007

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the South Carolina Department of Motor Vehicles to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. Reconciliations

- We obtained all monthly reconciliations prepared by the South Carolina Department of Motor Vehicles for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Agency's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. We found no exceptions as a result of the procedures.

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
June 1, 2007

7. Appropriation Act

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the South Carolina Department of Motor Vehicles and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the South Carolina Department of Motor Vehicles and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. Status of Prior Findings

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Motor Vehicles resulting from their engagement ended June 30, 2005, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2005.

Our findings as a result of these procedures are presented in the Personnel and Payroll in the Accountants' Comments section of this report.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
June 1, 2007

This report is intended solely for the information and use of the Governor, the South Carolina Office of the State Auditor and the management of the South Carolina Department of Motor Vehicles and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA

ACCOUNTANTS' COMMENTS

SECTION A – VIOLATION(S) OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

PERSONNEL AND PAYROLL

We tested the Agency's compliance with its internal control procedures and laws and regulations affecting personnel and payroll practices. During our test of payroll, we noted the following:

1. Four employees in our test of new hires were paid for a holiday that preceded their start of work date. We were told that it is the Agency's policy to add new employees to the payroll system on the first day of a pay period. Because a holiday fell on the first day of the period the new employees did not begin work until the second day of the pay period. Even though the employees were not employed by the Agency on the first day of the pay period, they were still paid for the entire pay period. This error resulted in an overpayment of \$383.
2. During our test of terminations, we noted that the employment period of two temporary employees exceeded one year. State Human Resources Regulation 19-700 specifies that an agency is to automatically terminate temporary employees after 52 weeks of service. A temporary employee is required to take a two week break in service before being rehired. The temporary employees selected were automatically terminated by the Agency, but remained in the payroll system during the required two week break in service. In addition, the Agency could not provide documentation supporting the employees' termination. A similar comment was described in the prior year agreed-upon procedures engagement. The Agency did not start maintaining records of the termination/two week break in service until the end of fiscal year 2006. Both of these employees terminated before the new policy was adopted.

We recommend that the Agency review and modify, as appropriate, its control procedures over new hires and terminations to ensure that it is in compliance with agency policies as well as State laws, rules and regulations.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Motor Vehicles for the fiscal year ended June 30, 2005, and dated September 7, 2006. We determined that the Agency has taken adequate corrective action on each of the findings except for new hires and terminations which we have repeated in Section A in the Personnel and Payroll comment.

MANAGEMENT'S RESPONSE

Mark Sanford

Governor



Marcia S. Adams

Director

State of South Carolina

Department of Motor Vehicles

June 18, 2007

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

I would like to offer the following comments in response to the matters discussed in the Accountant's Comments section of the draft report resulting from the performance of agreed-upon procedures to the accounting records of the South Carolina Department of Motor Vehicles for the fiscal year ended June 30, 2006.

Personnel and Payroll: The DMV makes every effort to adhere to state laws and regulations as well as departmental policies and procedures relating to the hiring and termination of employees. Since the fiscal year 2005 AUP Report was issued with similar conditions noted, the DMV Human Resources and Payroll Offices have worked closely in the development and execution of detailed procedures to ensure that newly hired employees are not improperly paid for holidays and that all temporary employees are terminated after 52 weeks and remain off the payroll records for minimum of two (2) consecutive weeks prior to being considered for rehiring. While tests performed by the Hobbs Group, PA for fiscal year 2006 detected a few exceptions, we believe that the policies and procedures that have been implemented have strengthen the controls in these areas, and thereby will eliminate issues of this nature in the future.

I would like to express my appreciation to the Hobbs Group, PA for their cooperation and professionalism during this engagement. If you should have any questions or need to discuss any of the information provided in this response, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Marcia S. Adams".

Marcia S. Adams
Executive Director